

1 **STATE OF WASHINGTON**  
2 **DEPARTMENT OF FINANCIAL INSTITUTIONS**  
3 **SECURITIES DIVISION**

4 IN THE MATTER OF DETERMINING ) Order No. S-05-158-06-FO02  
5 whether there has been a violation of the )  
6 Securities Act of Washington by: ) ENTRY OF FINDINGS OF FACT AND  
7 HOPE INVESTMENTS, INC., ) CONCLUSIONS OF LAW AND FINAL ORDER  
8 THOMAS ALAN WELTER, and ) TO CEASE AND DESIST AS TO THOMAS ALAN  
9 MICHAEL J. INMAN, ) WELTER  
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THE STATE OF WASHINGTON TO: Thomas Alan Welter

On June 19, 2006, the Securities Division of the State of Washington, Department of Financial Institutions (“the Division”) issued Statement of Charges and Notice of Intent to Enter an Order to Cease and Desist, Order Restitution, Impose Fines, and Charge Costs (“Statement of Charges”), Order No. S-05-158-06-SC01, against Respondents Hope Investments, Inc., Thomas Alan Welter, and Michael J. Inman.

On June 24, 2006, the Statement of Charges, together with a Notice of Opportunity to Defend and Opportunity for Hearing (“Notice of Opportunity for Hearing”), and an Application for Adjudicative Hearing (“Application for Hearing”) were served on Respondent Welter. On July 11, 2006, Respondent Welter submitted an Application for Hearing, and the Division referred the matter to the Office of Administrative Hearings (“OAH”) to commence the adjudicative proceedings.

On or about September 5, 2006, Respondent Welter received a Notice of Prehearing Conference By Telephone from OAH setting the conference for Tuesday, September 19, 2006, at 8:30 a.m. The Notice required that the parties appear by telephone by calling OAH at least ten minutes prior to the start of the conference.

1 On September 15, 2006, OAH received a letter from Respondent Welter dated September 14, 2006.  
2 On September 18, 2006, the Division received a copy of the same letter. Among other things, Respondent  
3 Welter indicated that he was revoking his Application for Hearing. Attached to both copies of the letter  
4 was a crossed-out photocopy of his original Application, signed and dated by Respondent Welter with the  
5 notation "Revocation and cancellation of signature."

6 On September 19, 2006, Administrative Law Judge Brian O. Watkins entered a Dismissal Order in the  
7 administrative action based on Respondent Welter's written withdrawal of his Application for Hearing.  
8 Judge Watkins also noted that that Respondent Welter had not appeared for the conference as required.  
9 The Dismissal Order further notes that the Division has authority to issue a final order disposing of this  
10 matter. Based on the Dismissal Order entered in the adjudicative action, the Division hereby enters this  
11 Final Order pursuant to RCW 34.05.440.

12 The Securities Administrator makes the following findings of fact and conclusions of law:

13 **FINDINGS OF FACT**

14 ***I. RESPONDENTS***

15 1. Hope Investments, Inc. ("Hope") is an inactive Washington for-profit corporation incorporated on  
16 September 18, 1997. Hope filed annual reports with the Secretary of State's Office through September 29,  
17 2004, becoming an inactive corporation when it failed to file its annual report by September 30, 2005.  
18 During all times material to this action, Hope maintained its principal place of business in Federal Way,  
19 King County, Washington.

20 2. Thomas Alan Welter ("Welter") was the President of Hope from 1997 through 2005. Welter resides  
21 in Federal Way, King County, Washington.

22 3. Michael J. Inman ("Inman") was the Vice President of Hope from 1997 through 2003. Inman  
23 resides in Colville, Stevens County, Washington.

1 **II. HISTORICAL RAILROAD BOND FRAUD**

2 4. During the late 1990s, gold-backed historical railroad bonds, once valid obligations of American  
3 railroads, became common vehicles for securities fraud. Though they have some value as collectibles,  
4 historical railroad bonds are worthless as securities. In 1933, Congress rendered such gold clauses  
5 unenforceable, and the original issuers no longer exist. Promoters of the fraud typically obtained third-  
6 party valuations showing bond prices in the thousands of dollars. However, a 2003 pricing guide assessed  
7 the price of the bonds frequently used in frauds at between \$25 and \$700 each.<sup>1</sup>

8 5. In addition to misrepresenting the price, a typical valuation falsely overstated the value of the bonds  
9 by assuming that, notwithstanding the unenforceability of the gold clauses, and the defunct and bankrupt  
10 status of the bonds' issuers, some person or entity was obligated to redeem the bonds in gold. Promoters  
11 falsely claimed that bonds were worth millions of dollars.

12 6. Promoters also used the fraudulent valuations to claim the bonds could be used in prime-bank  
13 redemption programs that would generate hundreds of millions in returns. In fact, there were no bond  
14 redemption programs generating high yield returns.<sup>2</sup>

15 7. On January 21, 1998, the U.S. Securities and Exchange Commission (“SEC”) announced a civil  
16 injunctive action against Daniel Schneider and others for the fraudulent sale of historical railroad bonds.  
17 On February 13, 1998, U.S. District Court Judge William F. Downes granted the SEC’s motion for an  
18 injunction, finding, in part, that Schneider was reckless in relying on bond valuations prepared by Gerald  
19 Dobbins (“Dobbins”). Dobbins was the owner of Fidelity Secured Deposit Corporation (“FSDC”), a  
20 California firm purportedly specializing in the authentication and valuation of historical bonds.<sup>3</sup>

21 8. On March 10, 1998, the SEC announced their second civil injunctive action involving historical  
22 railroad bonds. Dobbins and FSDC were prohibited from preparing and distributing fraudulent

23 <sup>1</sup> Terry Cox, *Collectible Stocks and Bonds of North American Railroads* (2<sup>nd</sup> ed., TCox & Associates, Inc.) (2003).

24 <sup>2</sup> *Historical Bond Fraud*, U.S. Dept. of the Treasury, Bureau of the Public Debt, [www.publicdebt.treas.gov/cc/ccphony.htm](http://www.publicdebt.treas.gov/cc/ccphony.htm)

25 <sup>3</sup> Litigation Release 15622, SEC v. Daniel E. Schneider, et al., Civil Action No. 98-CV-0014-D (USDC Wyo.) (1998).

1 authentication and valuation documents relating to bonds, based in part on findings that the valuations  
2 provided by Dobbins misrepresented material facts. Between June 1998 and January 1999, the SEC filed  
3 three other cases involving the sale of more than \$15 million in historical railroad bonds, including a third  
4 case involving Dobbins and FSDC.<sup>4</sup>

### 5 ***III. NATURE OF THE OFFERING***

6 9. During 1997 and 1998, Respondent Welter offered and sold whole or fractional interests in historical  
7 railroad bonds linked to high-yield prime-bank bond redemption programs. Welter used gold-backed  
8 railroad bonds issued by the Mad River and Lake Erie Railroad Co. (the “Mad River bonds”). The price  
9 of the bonds as collectibles ranged from \$40 to \$300.

10 10. Respondent Welter used authentications and valuations provided by Dobbins and FDSC stating the  
11 bonds were authentic, were priced at thousands of dollars each, and were worth millions of dollars in gold.  
12 Welter further claimed that through high-yield bond redemption programs operated in Europe, investors  
13 would receive millions of dollars in return for nominal investments.

14 11. Respondent Welter maintained contact with investors through 2003, lulling them into a false sense  
15 of security with claims that the bond redemption program was going to produce the promised returns. In  
16 fact, the bonds were never redeemed or sold, and none of the investors ever recovered their principal.

#### 17 **A. Offers and Sales by Hope: Kennedy**

18 12. In September 1997, Respondent Welter incorporated Hope as the entity through which the bonds  
19 would be offered and sold to investors. In December 1997, Inman wrote to a Washington investor, Mr.  
20 Kennedy, stating that they had funds for a bond purchase, were looking for investors in an historical bond,  
21 and that if Mr. Kennedy or other investors were interested they would have to move quickly.

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22 <sup>4</sup> Litigation Release 15665, SEC v. Gerald A. Dobbins et al., Civil Action No. 98-229 (USDC C.D. Ca.) (1998); Litigation  
23 Release 15787, SEC v. Albert E. Carter et al., Civil Action No. 98CV-0440B (USDC Utah) (1998); Litigation Release 16000,  
24 SEC v. Two-Thirds International, Inc. et al., Civil Action No. 98-1324-Civ. ORL-18A (USDC M.D. Fla. / Orlando) (1998); and  
25 Litigation Release 16028, SEC v. Michael A. Huxley et al., Civil Action No. F99-5045 AWI (USDC E.D. Cal. / Fresno) (1999).

1 13. Respondent Welter sent Mr. Kennedy a joint venture agreement (“the Hope JVA”) dated  
2 December 22, 1997. Besides Mr. Kennedy there were five other investors participating in the investment,  
3 four from Minnesota and one from Arizona. Pursuant to the Hope JVA, the investors were purchasing an  
4 interest in one Mad River bond that would be placed in a high yield bond redemption program. Hope was  
5 responsible for acquiring the bond, placing it in safekeeping with FSDC, and placing the bond in the  
6 redemption program. According to Dobbins, the Mad River bond was valued at \$526 million.

7 14. The Hope JVA stated that Hope anticipated the bond would be redeemed around January 15<sup>th</sup>,  
8 1998. The proceeds of the redemption were to be received by Hope in two installments, the first in March  
9 1998 and the second in March 1999. In the event the redemption did not occur within 120 days, the bond  
10 would be sold at current market value. Gross proceeds from the redemption were to be split two ways,  
11 with 30% for the redemption and the balance going to Hope and the other investors. Of the 70% going to  
12 investors, Hope was to receive 35% and the other investors a declining percentage based on their  
13 fractional investment in the bond purchased. Mr. Kennedy was to receive a 6.5% share.

14 15. Respondent Welter instructed Mr. Kennedy to wire funds to a brokerage account in New York  
15 held in the name of Hope Investments, Inc., attention Thomas A. Welter or Michael J. Inman. On  
16 December 24, 1997, Mr. Kennedy wired \$4,000 to Hope as instructed. The Mad River bond was never  
17 redeemed or sold, and none of the investors ever recovered their principal.

18 16. Inman testified that the Hope JVA was created by Respondent Welter, and that Welter used the  
19 Hope JVA a number of times with other Washington investors. Inman was not able to identify any other  
20 Washington investors, and claimed that all records relating to Hope in his possession had been lost or  
21 destroyed. Respondent Welter refused to answer any questions relating to the Hope JVA, asserting his  
22 right to refuse to answer questions relating to the document on the grounds that the answers would tend to  
23 incriminate him. Welter claimed that all documents relating to Hope had been lost or destroyed.

1 B. Offers and Sales by Hope: Mirkes

2 17. On February 24, 1998, Respondent Welter sent a six-page fax to David Parker of Texas. The fax,  
3 addressed to Mr. Parker “for Jim Mirkes,” included a message signed by Welter instructing Mr. Parker to  
4 review the attached joint venture agreement with Jim Mirkes and return a signed copy.

5 18. The joint venture agreement referenced in the message (“the Welter JVA”) was similar to the Hope  
6 JVA described above. Dated February 24, 1998, the Welter JVA was between Hope and just two  
7 investors, Mr. Parker and Mr. Mirkes. Pursuant to the Welter JVA, the investors were paying \$30,000 to  
8 purchase one Mad River bond that would be placed in a high yield bond redemption program. Hope was  
9 responsible for securing the bond, placing it in a redemption program, and distributing proceeds from the  
10 redemption to the investors. Respondent Welter did not provide a specific redemption date, but indicated  
11 that if the redemption did not occur within 180 days, the bond would be sold at current market value.  
12 Gross profits from the redemption were to be split with between the investors, with Hope to receive 36%,  
13 Mr. Mirkes 38%, and Mr. Parker 26%.

14 19. The Welter JVA directed Mr. Mirkes and Mr. Parker to wire funds to a Key Bank account in  
15 Federal Way, Washington, held in the name of Hope Investments, Inc., Tom Welter, President. On or  
16 about February 24, 1998, Mr. Mirkes signed the Welter JVA and wired \$30,000 to Respondent Welter as  
17 instructed. Though identified as an investor, Mr. Parker did not invest in the bond or redemption program.

18 20. An attachment to the Welter JVA charted the “Estimated Pay Out Schedule.” If entered into the  
19 high-yield bond redemption program, Respondent Welter estimated Mr. Mirkes would receive \$22.8  
20 million; Mr. Parker \$15.6 million; and Hope \$21.6 million. In the event the bond did not get in a  
21 redemption program, the chart showed the bond had a “Quick Sale/Trade Value” of \$10 million.

22 21. Respondent Welter provided Mr. Mirkes with a copy of a FSDC “Presentation” dated November  
23 10, 1997 that concluded the three Mad River bonds owned by Hope were authentic and valued at

1 \$562,593,792 per bond. The Mad River bond was never redeemed or sold, and Mr. Mirkes never  
2 recovered his principal.

3 C. Lulling

4 22. During 1999, Respondent Welter sent two letters to investors, claiming in April 1999 that the bond  
5 funds would be received later that month. In October 1999, Respondent Welter claimed that it expected  
6 that the transfer of funds would be completed on or about November 15, 1999.

7 23. In January 2000, Respondent Welter sent investors a news release issued by the U.S. Treasury  
8 concerning a buyback of Federal debt. Respondent Welter claimed that bonds similar to those held by  
9 Hope had been entered into redemption programs in anticipation of the buyback. In May 2000,  
10 Respondent Welter claimed that “the Fed” had given final approval for sale of the bonds, with a target  
11 date of May 18-21. In October 2000, Respondent Welter claimed that the bonds had been accepted into a  
12 redemption program and that funds would be paid out in 7-10 days from initiation of the program.

13 24. In December 2000, Respondent Welter claimed the bonds had been placed with a bank, that a line  
14 of credit had been established for use in redeeming the bonds, and that after the holiday break Hope would  
15 receive a detailed schedule for disbursements.

16 25. In 2001, Respondent Welter claimed that Hope’s agent was returning to London to finalize the  
17 project and anticipated that funds would be disbursed around May 15, 2001.

18 26. In 2002, Respondent Welter claimed that Hope was in the process of getting the bonds back from  
19 the agent, and that the bonds would be placed in a trust.

20 27. In 2003, Respondent Welter claimed that Hope was still trying to retrieve the bonds from the  
21 agent.

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1 **IV. MISREPRESENTATIONS AND OMISSIONS**

2 28. Respondent Welter misrepresented the value of the Mad River bonds in that he had no reasonable  
3 basis in fact for asserting that the value of the bonds was \$526 million. Furthermore, Respondent Welter  
4 misrepresented the bond redemption program in that there was no reasonable basis in fact for representing  
5 that such programs existed. Finally, Respondent Welter misrepresented the potential return on  
6 investment, in that there was no reasonable basis in fact for projecting that Mr. Mirkes would receive a  
7 return of \$22.8 million, and Mr. Parker \$15.6 million, on a \$30,000 investment.

8 29. Respondent Welter failed to disclose material risks concerning the investment in the Mad River  
9 bonds, including but not limited to the risk that the bond authentications and valuations were fraudulent,  
10 that no bond redemption program existed, and that there was no cash market for immediate sale of the  
11 bonds. Respondent Welter also failed to make any disclosures concerning his business background,  
12 experience, and financial status.

13 30. Between January 21, 1998 and January 19, 1999, the SEC issued five news releases concerning its  
14 enforcement actions involving historical railroad bonds. In November 2000, Mr. Mirkes printed and sent  
15 Respondent Welter the information from *Historical Bond Fraud* on the U.S. Treasury's web site,  
16 including a detailed description of the fraud, copies of the SEC's case against Dobbins,<sup>5</sup> and a Federal  
17 Reserve warning about fraudulent prime bank schemes.<sup>6</sup> Though Respondent Welter knew or should  
18 have known that the valuations prepared by Dobbins and FDSC were fraudulent, and that prime bank  
19 bond redemption programs did not exist, from April 6, 1999, through May 20, 2003, Welter continued to  
20 misrepresent the existence and viability of the historical railroad bond redemption program, failed to  
21 disclose the existence of the SEC actions, and failed to disclose that the Mad River bonds had no value.

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23 <sup>5</sup> *SEC v. Gerald A. Dobbins, et al.*, <http://www.publicdebt.treas.gov/cc/ccdobns2.txt>

24 <sup>6</sup> Board of Governors of the Federal Reserve System, Division of Banking, Supervision and Regulation,  
25 <http://www.federalreserve.gov/boarddocs/srletters/1993/SR9361.htm>

1 **V. REGISTRATION STATUS**

2 31. The securities issued by Hope Investments, Inc. and offered and sold by Respondent Welter were  
3 not registered in the state of Washington, and no notification of exemption is on file with the Division.

4 32. Respondent Welter is not currently registered to offer or sell securities in the state of Washington  
5 and has not previously been so registered.

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7 Based on the foregoing Findings of Fact, the following Conclusions of Law are made:

8 **CONCLUSIONS OF LAW**

9 1. The offer and sale of the joint venture agreements, historical bonds, or interests in the bonds as  
10 described above constitute the offer and sale of securities as defined in RCW 21.20.005(10) and (12).

11 2. Respondent Thomas Alan Welter has knowingly or recklessly violated RCW 21.20.010, the anti-  
12 fraud provision of the Securities Act of Washington (“the Act”), by making, in connection with the offer  
13 or sale of said securities, untrue statements of material fact and by omitting to state material facts  
14 necessary in order to make the statements made, in light of the circumstances under which they were  
15 made, not misleading.

16 3. Respondent Thomas Alan Welter has knowingly or recklessly violated RCW 21.20.140, the  
17 securities registration provision of the Act, by offering or selling said securities while no registration was  
18 on file with the Securities Division.

19 4. Respondent Thomas Alan Welter has knowingly or recklessly violated RCW 21.20.040, the  
20 securities broker-dealer and salesperson registration provision of the Act, by offering and selling said  
21 securities while not registered as a securities broker-dealer or salesperson in the state of Washington.

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1 **FINAL ORDER**

2 It is hereby ORDERED that Respondent Thomas Alan Welter shall immediately cease and desist from  
3 violations of RCW 21.20.010, the anti-fraud provision of the Act; RCW 21.20.140, the securities  
4 registration provision of the Act; and RCW 21.20.040, the securities broker-dealer and salesperson  
5 registration provision of the Act.

6 IT IS FURTHER ORDERED that, pursuant to RCW 21.20.390, and based upon the above Findings of  
7 Fact and Conclusions of Law, Respondent Thomas Alan Welter shall be liable for and shall pay restitution  
8 to Mr. Kennedy and Mr. Mirkes in the principal amount of Four Thousand Dollars (\$4,000) and Thirty  
9 Thousand Dollars (\$30,000), respectively.

10 IT IS FURTHER ORDERED that, pursuant to RCW 21.20.395, based upon the above Findings of Fact  
11 and Conclusions of Law, and based upon his knowing or reckless violations of the Securities Act,  
12 Respondent Thomas Alan Welter shall be liable for and shall pay a fine to the State of Washington in the  
13 amount of \$5,000.

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16 **AUTHORITY AND PROCEDURE**

17 This Final Order is entered pursuant to the provisions of RCW 21.20.390 and RCW 21.20.395, and is  
18 subject to the provisions of Chapter 34.05 RCW. Respondent has the right to petition the superior court for  
19 judicial review of this agency action under the provisions of chapter 34.05 RCW. For the requirements for  
20 filing a Petition for Judicial Review, see RCW 34.05.510. Pursuant to RCW 21.20.395, a certified copy of  
21 this order may be filed in Superior Court. If so filed, the clerk shall treat the order in the same manner as a  
22 Superior Court judgment, and the judgment may be recorded, enforced, or satisfied in like manner.

1 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

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3 DATED and ENTERED this 23rd day of October, 2006.

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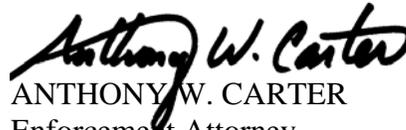
6  
7 MICHAEL E. STEVENSON  
Securities Administrator

8 Approved for entry by:

9 Presented by:

10 

11 SUZANNE E. SARASON  
12 Program Manager  
13 Compliance & Examinations Unit

14 

15 ANTHONY W. CARTER  
16 Enforcement Attorney  
17 Compliance & Examinations Unit